



## CITY OF LODI

## COUNCIL COMMUNICATION

AGENDA TITLE: Audited Financial Statements for Fiscal Year Ended June 30, 1990

MEETING DATE: February 6, 1991

PREPARED BY: Finance Director

RECOMMENDED ACTION: That the City Council accept for filing the following documents connected with the audit of the Financial Statements of the City of Lodi as of and for the year ended June 30, 1990.

BACKGROUND INFORMATION: Attached are the following documents related to the 1989-90 annual audit:

- . Exhibit A--Comments and Recommendations (Management Letter)
- . Exhibit B--Finance Director's Comments (Management Letter)
- . Exhibit C--"Report on Investment Policy"
- . Exhibit D--"Single Audit Report"
- . Exhibit E--"Report on Internal Control Structure"
- . Exhibit F--"General Purpose Financial Statements"

FUNDING: None Required

Robert H. Holm  
Finance Director

RHH:ss

Attachments

APPROVED:

THOMAS A. PETERSON  
City Manager



CC-1



EXHIBIT A

Certified Public Accountants

2495 Natomas Park Drive  
Sacramento, CA 95833 2936

Telephone 916 925 6000

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January 7, 1991

The Honorable Members City Council  
City of Lodi, California:

We have audited the general purpose financial statements of The City of Lodi for the year ended June 30, 1990, and have issued our report thereon dated November 2, 1990. In planning and performing our audit of the general purpose financial statements of the City of Lodi, California we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our report.

During our audit we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies, are summarized as follows:

### **FIXED ASSETS**

#### **Detailed Property Records**

Adequate support for fixed assets does not currently exist. To improve control over City assets, detailed property records should be established. Specifically, property records should include the following data:

- Description and unit number assigned;
- Location of property unit;
- Cost, voucher number, and vendor name;
- Condition - new or used;
- Date placed in service;
- Useful life;
- Depreciation method;
- Depreciation provision for each year; and
- Date retired, sold or traded.



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This could be accomplished by performing a physical inventory of all fixed assets, and then recording the above recommended information. Additionally, the City should implement a method for the valuation of these assets. We recommend the City consider the use of an appraiser, as appropriate, to arrive at a reasonable valuation of the fixed assets inventoried. The City could perform the valuation process over several years in order to spread the cost of the valuation project over time.

### **Fixed Asset Disposals**

At present, the City, despite the size and dispersion of its facilities, does not have a formal procedure to ensure that disposals of fixed assets, whether by destruction, sale, scrapping, or trade-in, are reported to the accounting department. Without such a procedure, the likelihood of an unrecorded disposal, even a sale with diversion of the related proceeds, increases.

We recommend that a formal policy to ensure the reporting of fixed asset disposals be adopted and include: (1) the necessary level of approval based on the value of the asset and (2) reporting to the finance department on a timely basis. A simple standardized form could be developed to provide adequate accounting documentation and to provide evidence of adherence to City policy.

## **INTERNAL ACCOUNTING CONTROLS**

### **Review of Internal Accounting Controls over Purchases**

During our compliance testing of the disbursement cycle, we noted that in 15 instances (out of 30 sample items) where vendor packets did not contain purchase orders. We also noted that purchase orders were sometimes prepared after the purchase was made. To enhance internal accounting controls over purchase activities, we recommend that all purchases be required to have a properly approved purchase order prior to the purchase transaction and that a copy of the purchase order be maintained in the individual vendor packet. To help implement this policy, we recommend the accounts payable department not accept a request for payment unless the vendor packet includes an approved purchase order. This will minimize occurrences of unauthorized or unapproved purchases.

### **Documentation of Control Over Purchases**

When invoices are received, the unit price on the invoice is compared to the unit price per the purchase order and any discrepancies are investigated. If the vendor is incorrect, the invoice is changed accordingly. This is an effective control procedure, however, it is not documented by the person making this comparison. To establish accountability for the review process, invoices should be initialed to signify agreement with the approved unit price per the purchase order. This will provide the check signer assurance that payment is made at the unit price agreed to at the time the order was placed.

### OTHER MATTERS

We were asked by the City to perform compliance test-work on the City's investment policy. This policy includes a list of investment instruments which are allowable under current legislation of the State of California (Government Code Section 53600 et seq.). We noted investments in stock is not a part of this list. During our test-work, we noted the City library's investment portfolio contained common stock valued at \$139,073 at a cost of \$57,085 as of June 30, 1990. The City library obtained this stock through bequests, stock dividends, and dividend reinvestment programs. The dividend reinvestment program is, in effect, the acquisition of stock. To ensure compliance with the City's investment policy and State of California current legislation, we suggest that management assess the need to sell this stock.

#### **Operations Letter**

Additional suggestions of an operational nature were presented to management under a separate letter also dated January 7, 1991.

\* \* \* \* \*

This report is intended solely for the information and use of the City Council, management, and others within the organization.

Very truly yours,

*KPMG Peat Marwick*

MEMORANDUM

TO: Thomas A. Peterson, City Manager

FROM: Robert H. Holm, Finance Director

DATE: January 28, 1991

SUBJECT: Comments on Auditors' Management Letter

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As stated in my comments on last year's audit report, the auditors have indicated there are no material weaknesses in our internal control procedures. However, they do have suggestions for improving our internal controls, and I would like to add our responses to their suggestions.

Fixed Assets

The auditors have again recommended detailed fixed asset records be established, and that the City consider the use of an appraiser to determine a reasonable value of fixed assets. My comments last year indicated this is a cost item in the area of \$50,000 to \$60,000 for appraisal services. The appraisal would cover all buildings and contents, electrical underground and overhead transmission systems, water mains, sewer lines, etc.

We have had this comment each year for the past fifteen years, and, since it hasn't affected our bond rating, I cannot give it the highest priority rating considering the City's financing difficulties.

We presently have a manual system for office equipment, vehicles, etc., and we are looking at software to purchase to automate those property records. As soon as we can find the right software to run on the City's mainframe, we will have it installed (hopefully, this fiscal year).

Fixed Asset Disposals

The auditors have stated that we do not have a formal procedure to dispose of fixed assets. This is only partially correct, as the Lodi Municipal Code (LMC), section 2.12.120 specifically addresses the sale of personal property. We may not have a specific form designed, however, all Department Heads send us memorandums on disposal of surplus property, and we forward these to the City Manager for approval.

January 28, 1991

Internal Accounting Controls--Purchasing

The auditors indicated that we have been paying invoices that do not have purchase orders, and, also, that purchase orders are issued after purchases are made. I want to point out that while we may be paying invoices that do not have purchase orders, these invoices are approved by each department to ensure that prices are correct and materials are received prior to payment being made.


It is our goal to centralize all of the City's purchase functions to make sure the provisions of the IMC are being followed and that the proper materials with the best prices are obtained. We will continue to make our best effort to centralize all of the City's purchase functions provided we have cooperation from all departments and our staffing level allows it.

Documentation of Control over Purchases

The auditors have suggested that our staff initial changes on invoices when corrections are made. We will comply with this request.

Other Matters--Investments in Corporate Stocks

The auditors' comment on this item is the same as last year's. In my contact with the City Librarian last year, he indicated that unless the City Council direct the Library Board of Trustees to sell the stock, they were going to continue to hold on to the stock and receive stock dividends as a reinvestment. As City Treasurer, I am not allowed, under government code, to invest in corporate stock. Since I did not purchase the stock, I, therefore, do not list the stock as part of my investment report to the City Council. To me, it is a technicality as to the reinvestment of dividends into additional stock that the auditors are expressing a comment. The City Council may want to direct the Library Board of Trustees to sell the stock and not have the auditors' comment reappear next year.



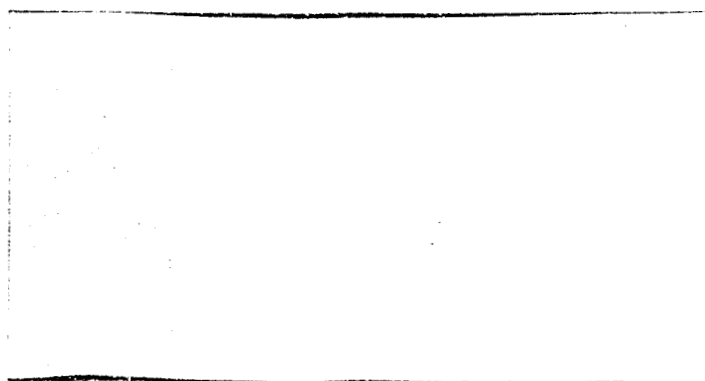
Robert H. Holm  
Finance Director/Treasurer

RHH:LS



Certified Public Accountants

EXHIBIT D



**KPMG** Peat Marwick

**CITY OF LODI, CALIFORNIA**

**Single Audit Reports**

**Year Ended June 30, 1990**



CITY OF LODI, CALIFORNIA

Single Audit Reports

Year Ended June 30, 1990

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Certified Public Accountants

2495 Natomas Park Drive  
Sacramento, CA 95833 2936

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE

The Honorable Members of City Council  
The City of Lodi, California  
Lodi, California:

We have audited the general purpose financial statements of The City of Lodi, California as of and for the year ended June 30, 1990, and have issued our report thereon dated November 2, 1990, which was qualified because adequate historical cost records of general and proprietary fund fixed assets and proprietary fund contributed capital were not available for audit and as such, we were unable to satisfy ourselves with respect to these accounts.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

In planning and performing our audit of the general purpose financial statements of The City of Lodi, California for the year ended June 30, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

The management of The City of Lodi, California is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in one category, the disbursement cycle.



**KPMG** Peat Marwick

For the internal control structure category identified above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed the control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management and City Council of the City of Lodi, California, in separate letters dated November 2, 1990.

This report is intended for the information of the City Council, management, and the U.S. Department of Housing and Urban Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*KPMG Peat Marwick*

November 2, 1990



Certified Public Accountants

2495 Natomas Park Drive  
Sacramento, CA 95833 2936

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
AT THE GENERAL PURPOSE FINANCIAL STATEMENT LEVEL**

The Honorable Members of City Council  
City of Lodi, California:

We have audited the general purpose financial statements of the City of Lodi, California as of and for the year ended June 30, 1990, and have issued our report thereon dated November 2, 1990, which was qualified because adequate historical cost records of general and proprietary fund fixed assets and proprietary fund contributed capital were not available for audit and as such, we were unable to satisfy ourselves with respect to these accounts.

We conducted our audit in accordance with generally accepted auditing standards and Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the City of Lodi, California is the responsibility of the City of Lodi, California's management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the City of Lodi, California's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provision. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the City of Lodi, California complied, in all material respects, with the provision referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that The City of Lodi, California had not complied, in all material respects, with those provisions.

This report is intended for the information of the City Council, management and the U.S. Department of Housing and Urban Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*KPMG Peat Marwick*

November 2, 1990





Certified Public Accountants

2495 Natomas Park Drive  
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**INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTARY INFORMATION  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**

The Honorable Members of City Council  
City of Lodi, California:

We have audited the general purpose financial statements of the City of Lodi, California for the year ended June 30, 1990, and have issued our report thereon dated November 2, 1990, which was qualified because adequate historical cost records of general and proprietary fund fixed assets and proprietary fund contributed capital were not available for audit and as such, we were unable to satisfy ourselves with respect to these accounts. These general purpose financial statements are the responsibility of the management of the City. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the City of Lodi, California, taken as a whole. The accompanying schedule of federal financial assistance is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

*KPMG Peat Marwick*

November 2, 1990



CITY OF LODI, CALIFORNIA

Schedule of Federal Financial Assistance

Year Ended June 30, 1990

<u>Federal Grantor Program Title</u>	<u>Federal CFDA or Grantor's Pass-Through Number</u>	<u>Revenues</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development: (Pass-through County of San Joaquin):			
Community Development Block Grants:			
1989-1990 Program Year	14.219	\$ 58,759	60,465
1988-1989 Program Year	14.219	33,820	33,820
1987-1988 Program Year	14.219	136,002	136,002
1985-1987 Program Year	14.219	<u>49,441</u>	<u>49,441</u>
		278,022	279,728
U.S. Department of Transportation (Pass-through State Office of Criminal Justice Planning: Federal Urban Aid			
	20.205	-	4,167
U.S. Treasury Department: Federal Revenue Sharing			
	21.300	-	136,972
U.S. Department of Justice (Pass-through State Office of Criminal Justice Planning): Drug Suppression Program			
		<u>25,172</u>	<u>44,804</u>
Total Federal Financial Assistance		\$ <u>303,194</u>	<u>465,671</u>

See accompanying notes to schedule of federal financial assistance.

CITY OF LODI, CALIFORNIA

Schedule of Federal Financial Assistance

Year Ended June 30, 1990

<u>Federal Grantor Program Title</u>	<u>Federal CFDA or Grantor's Pass-Through Number</u>	<u>Revenues</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development: (Pass-through County of San Joaquin):			
Community Development Block Grants:			
1989-1990 Program Year	14.219	\$ 58,759	60,465
1988-1989 Program Year	14.219	33,820	33,820
1987-1988 Program Year	14.219	136,002	136,002
1985-1987 Program Year	14.219	<u>49,441</u>	<u>49,441</u>
		278,022	279,728
U.S. Department of Transportation (Pass-through State Office of Criminal Justice Planning: Federal Urban Aid			
	20.205	-	4,167
U.S. Treasury Department: Federal Revenue Sharing			
	21.300	-	136,972
U.S. Department of Justice (Pass-through State Office of Criminal Justice Planning): Drug Suppression Program			
		<u>25,172</u>	<u>44,804</u>
Total Federal Financial Assistance		\$ <u>303,194</u>	<u>465,671</u>

See accompanying notes to schedule of federal financial assistance.

CITY OF LODI, CALIFORNIA

Notes to Schedule of Federal Financial Assistance

June 30, 1990

(1) General

The accompanying Schedule of Federal Financial Assistance presents the activity of all federal financial assistance programs of the City of Lodi, California. The City of Lodi reporting entity is defined in note 1 to the City's general purpose financial statements. Federal financial assistance is received directly from federal agencies and through other government agencies.

(2) Basis of Accounting - Grant Programs

The Schedule of Federal Financial Assistance has been prepared on the modified accrual basis of accounting which is described in note 1 to the City's general purpose financial statements.

(3) Relationship to General Purpose Financial Statements

Federal financial assistance revenues are reported in the City's general purpose financial statements as follows:

	<u>Intergovernmental Revenue</u>
General Fund	\$ 25,172
Special Revenue Fund	<u>278,022</u>
Total	\$ <u>303,194</u>

Total Federal assistance revenues do not agree with expenditures reported on the Schedule of Federal Financial Assistance due to the timing of the submission of claims for reimbursement of expenditures.

(4) Relationship to Federal Financial Reports

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports.





Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT  
ON INTERNAL CONTROLS (ACCOUNTING AND ADMINISTRATIVE)  
BASED ON A STUDY AND EVALUATION MADE AS A PART OF AN  
AUDIT OF THE GENERAL PURPOSE FINANCIAL STATEMENTS AND  
THE ADDITIONAL TESTS REQUIRED BY THE SINGLE AUDIT ACT**

The Honorable Members of City Council  
The City of Lodi, California  
Lodi, California:

We have audited the general purpose financial statements of the City of Lodi, California, as of and for the year ended June 30, 1990, and have issued our report thereon dated November 2, 1990, which was qualified because adequate historical cost records of general and proprietary fund fixed assets and proprietary fund contributed capital were not available for audit and as such, we were unable to satisfy ourselves with respect to these accounts.

We conducted our audit in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

In planning and performing our audit of the general purpose financial statements of the City of Lodi, California, for the year ended June 30, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and reporting on federal financial assistance programs and not to provide assurance on the internal control structure.

During the year ended June 30, 1990, the City of Lodi, California, had no major federal financial assistance programs and expended 100 percent of its total federal financial assistance under the City of Lodi, California's nonmajor federal financial assistance program; Federal Revenue Sharing. As required by OMB Circular A-128, our consideration of the internal control structure included:

- (1) Tests of controls to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with



specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the aforementioned nonmajor financial assistance programs. Our procedures were substantially less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

- (2) Obtaining an understanding of (a) the design of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to the City's other nonmajor federal financial assistance programs and (b) whether they have been placed in operation.

The management of the City of Lodi, California, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal controls structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Accounting Controls
  - Expenditures and disbursements

- Administrative Controls

General requirements:

- Political activity;
- Davis-Bacon Act;
- Civil rights;
- Cash management; and
- Federal financial reports.

Specific Requirements:

- Types of services;
- Reporting; and
- Special requirements.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

We noted no matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements or administer federal financial assistance programs in accordance with applicable laws and regulations.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited or noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.'

We also noted other matters involving the internal control structure and its operation that we have reported to the management and the City Council of the City of Lodi, California, in separate letters dated January 7, 1991.

This report is intended for the information of the City Council, management, and U.S. Department of Housing and Urban Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*KPMG Peat Marwick*

November 2, 1990



Certified Public Accountants

2495 Natomas Park Drive  
Sacramento, CA 95833 2936

**INDEPENDENT AUDITORS' REPORT  
ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE  
TO NONMAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

The Honorable Members of City Council  
City of Lodi, California:

In connection with our audit of the 1990 general purpose financial statements of the City of Lodi, California, and with our study and evaluation of the City of Lodi, California's internal control systems used to administer federal financial assistance programs, as required by Office of Management and Budget Circular A-128, "Audits of State and Local Governments," we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended June 30, 1990.

As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed; whether funds were obligated or expended before receipt of an approved Request for Release of Funds and environmental certification that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the City of Lodi, California's compliance with these requirements. Accordingly, we do not express an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the City of Lodi, California had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying schedule of findings and questioned costs.

This report is intended for the information of the City Council, management, and the U.S. Department of Housing and Urban Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*KPMG Peat Marwick*

November 2, 1990



CITY OF LODI, CALIFORNIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

U.S. Department of Justice  
(Pass-through State Office of Criminal Justice Planning)  
Drug Suppression Program

**Finding:** In our tests of compliance of the City's administrative controls over the Drug Suppression Program, we noted that there was no individual responsible during the year for monitoring and maintaining compliance with the regulations imposed on the use of funds received under this federal program.

**Recommendation:** The City should appoint an individual to monitor compliance with regulations in order to ensure compliance and avoid the possible loss of future grant monies.

**City's response:** On January 1, 1991, the City hired an individual who will be responsible for monitoring compliance with the conditions of the grants.



EXHIBIT E

Certified Public Accountants

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## **INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE**

The Honorable Members of City Council  
The City of Lodi, California  
Lodi, California:

We have audited the general purpose financial statements of The City of Lodi, California as of and for the year ended June 30, 1990, and have issued our report thereon dated November 2, 1990.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

In planning and performing our audit of the general purpose financial statements of The City of Lodi, California for the year ended June 30, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

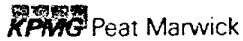
The management of The City of Lodi, California is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following category: expenditures and disbursements cycle.

For the internal control structure category listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.



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Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of The City of Lodi, California in a separate letter dated November 2, 1990.

This report is intended for the information of the City Council, management, and the U.S. Department of Housing and Urban Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*KPMG Peat Marwick*

November 2, 1990



Peat Marwick

EXHIBIT C

Certified Public Accountants

2495 Natomas Park Drive  
Sacramento, CA 95833 2936

Independent Auditors' Report

The Honorable Members of City Council  
City of Lodi, California:

We have applied certain agreed-upon procedures enumerated below with respect to the Statement of Investment Policy adopted by the Council Resolution 90-146. Our review was made solely to assist you in evaluating compliance with that policy. It is understood that this report is solely for your information and is not to be referred to or distributed for any purpose to anyone who is not a member of the City Council or management of the City of Lodi, California. Our procedures and findings are summarized as follows:

1. We confirmed the City's investments as of June 30, 1990. We noted no unreconcilable differences between the confirmed investment balances at June 30, 1990 and the recorded general ledger investment balances at June 30, 1990.
2. We read management's compliance with the Statement of Investment Policy. The City was not in compliance with the Statement of Investment Policy as to allowable investment instruments as the City Library's investment portfolio included common stock valued at \$139,073 with a cost of basis of \$57,085 at June 30, 1990. The library obtained this stock through bequests, stock dividends, and dividend reinvestment programs. The dividend reinvestment program is, in effect, the acquisition of stock. The investment policy does not identify stock as an allowable investment.

Because the above procedures do not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on any of the items referred to above. In connection with the procedures referred to above, no matters came to our attention that caused us to believe that City management did not comply with the Statement of Investment Policy adopted by Council Resolution 90-146, except as noted above. Had we performed additional procedures or had we conducted an audit of the Statement of Investment Policy in accordance with generally accepted auditing standards, matters might have come to our attention that would have been reported to you. This report relates only to the items specified above and does not extend to any financial statements of the City of Lodi, California, taken as a whole.

*KPMG Peat Marwick*

November 2, 1990



Member Firm of  
KPMG Peat Marwick Goetz LLP





EXHIBIT A

Certified Public Accountants

2495 Natomas Park Drive  
Sacramento, CA 95833 2936

Telephone 916 925 6000

Telecopier 916 441 3199

January 7, 1991

The Honorable Members City Council  
City of Lodi, California:

We have audited the general purpose financial statements of The City of Lodi for the year ended June 30, 1990, and have issued our report thereon dated November 2, 1990. In planning and performing our audit of the general purpose financial statements of the City of Lodi, California we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our report.

During our audit we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies, are summarized as follows:

### FIXED ASSETS

#### **Detailed Property Records**

Adequate support for fixed assets does not currently exist. To improve control over City assets, detailed property records should be established. Specifically, property records should include the following data:

- Description and unit number assigned;
- Location of property unit;
- Cost, voucher number, and vendor name;
- Condition - new or used;
- Date placed in service;
- Useful life;
- Depreciation method;
- Depreciation provision for each year; and
- Date retired, sold or traded.



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This could be accomplished by performing a physical inventory of all fixed assets, and then recording the above recommended information. Additionally, the City should implement a method for the valuation of these assets. We recommend the City consider the use of an appraiser, as appropriate, to arrive at a reasonable valuation of the fixed assets inventoried. The City could perform the valuation process over several years in order to spread the cost of the valuation project over time.

### **Fixed Asset Disposals**

At present, the City, despite the size and dispersion of its facilities, does not have a formal procedure to ensure that disposals of fixed assets, whether by destruction, sale, scrapping, or trade-in, are reported to the accounting department. Without such a procedure, the likelihood of an unrecorded disposal, even a sale with diversion of the related proceeds, increases.

We recommend that a formal policy to ensure the reporting of fixed asset disposals be adopted and include: (1) the necessary level of approval based on the value of the asset and (2) reporting to the finance department on a timely basis. A simple standardized form could be developed to provide adequate accounting documentation and to provide evidence of adherence to City policy.

## **INTERNAL ACCOUNTING CONTROLS**

### **Review of Internal Accounting Controls over Purchases**

During our compliance testing of the disbursement cycle, we noted that in 15 instances (out of 30 sample items) where vendor packets did not contain purchase orders. We also noted that purchase orders were sometimes prepared after the purchase was made. To enhance internal accounting controls over purchase activities, we recommend that all purchases be required to have a properly approved purchase order prior to the purchase transaction and that a copy of the purchase order be maintained in the individual vendor packet. To help implement this policy, we recommend the accounts payable department not accept a request for payment unless the vendor packet includes an approved purchase order. This will minimize occurrences of unauthorized or unapproved purchases.

### **Documentation of Control Over Purchases**

When invoices are received, the unit price on the invoice is compared to the unit price per the purchase order and any discrepancies are investigated. If the vendor is incorrect, the invoice is changed accordingly. This is an effective control procedure, however, it is not documented by the person making this comparison. To establish accountability for the review process, invoices should be initialed to signify agreement with the approved unit price per the purchase order. This will provide the check signer assurance that payment is made at the unit price agreed to at the time the order was placed.

### OTHER MATTERS

We were asked by the City to perform compliance test-work on the City's investment policy. This policy includes a list of investment instruments which are allowable under current legislation of the State of California (Government Code Section 53600 et seq.). We noted investments in stock is not a part of this list. During our test-work, we noted the City library's investment portfolio contained common stock valued at \$139,073 at a cost of \$57,085 as of June 30, 1990. The City library obtained this stock through bequests, stock dividends, and dividend reinvestment programs. The dividend reinvestment program is, in effect, the acquisition of stock. To ensure compliance with the City's investment policy and State of California current legislation, we suggest that management assess the need to sell this stock.

#### **Operations Letter**

Additional suggestions of an operational nature were presented to management under a separate letter also dated January 7, 1991.

\* \* \* \* \*

This report is intended solely for the information and use of the City Council, management, and others within the organization.

Very truly yours,

*KPMG Peat Marwick*

MEMORANDUM

TO: Thomas A. Peterson, City Manager  
FROM: Robert H. Holm, Finance Director  
DATE: January 28, 1991  
SUBJECT: Comments on Auditors' Management Letter

---

As stated in my comments on last year's audit report, the auditors have indicated there are no material weaknesses in our internal control procedures. However, they do have suggestions for improving our internal controls, and I would like to add our responses to their suggestions.

Fixed Assets

The auditors have again recommended detailed fixed asset records be established, and that the City consider the use of an appraiser to determine a reasonable value of fixed assets. My comments last year indicated this is a cost item in the area of \$50,000 to \$60,000 for appraisal services. The appraisal would cover all buildings and contents, electrical underground and overhead transmission systems, water mains, sewer lines, etc.

We have had this comment each year for the past fifteen years, and, since it hasn't affected our bond rating, I cannot give it the highest priority rating considering the City's financing difficulties.

We presently have a manual system for office equipment, vehicles, etc., and we are looking at software to purchase to automate those property records. As soon as we can find the right software to run on the City's mainframe, we will have it installed (hopefully, this fiscal year).

Fixed Asset Disposals

The auditors have stated that we do not have a formal procedure to dispose of fixed assets. This is only partially correct, as the Lodi Municipal Code (LMC), section 2.12.120 specifically addresses the sale of personal property. We may not have a specific form designed, however, all Department Heads send us memorandums on disposal of surplus property, and we forward these to the City Manager for approval.

January 28, 1991

Internal Accounting Controls--Purchasing

The auditors indicated that we have been paying invoices that do not have purchase orders, and, also, that purchase orders are issued after purchases are made. I want to point out that while we may be paying invoices that do not have purchase orders, these invoices are approved by each department to ensure that prices are correct and materials are received prior to payment being made.

It is our goal to centralize all of the City's purchase functions to make sure the provisions of the IMC are being followed and that the proper materials with the best prices are obtained. We will continue to make our best effort to centralize all of the City's purchase functions provided we have cooperation from all departments and our staffing level allows it.

Documentation of Control over Purchases

The auditors have suggested that our staff initial changes on invoices when corrections are made. We will comply with this request.

Other Matters--Investments in Corporate Stocks

The auditors' comment on this item is the same as last year's. In my contact with the City Librarian last year, he indicated that unless the City Council direct the Library Board of Trustees to sell the stock, they were going to continue to hold on to the stock and receive stock dividends as a reinvestment. As City Treasurer, I am not allowed, under government code, to invest in corporate stock. Since I did not purchase the stock, I, therefore, do not list the stock as part of my investment report to the City Council. To me, it is a technicality as to the reinvestment of dividends into additional stock that the auditors are expressing a comment. The City Council may want to direct the Library Board of Trustees to sell the stock and not have the auditors' comment reappear next year.



Robert H. Holm  
Finance Director/Treasurer

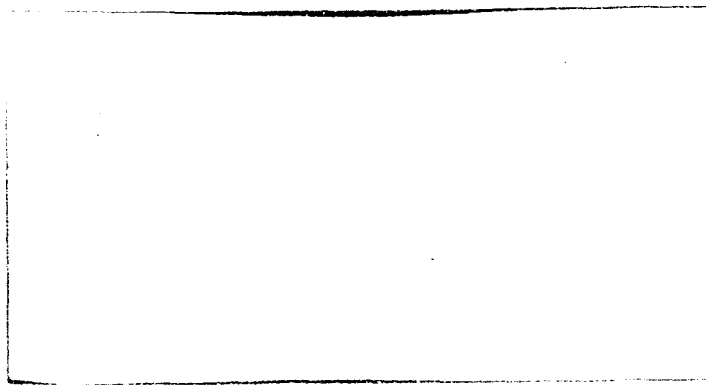
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Peat Marwick

Certified Public Accountants

EXHIBIT F





CITY OF LODI

General Purpose Financial Statements  
and Supplementary Information

Year Ended June 30, 1990

(With Independent Auditors' Report Thereon)

CITY OF LODI  
General Purpose Financial Statements  
and Supplementary Information

Year Ended June 30, 1990

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Certified Public Accountants

2495 Natomas Park Drive  
Sacramento, CA 95833 2936

Independent Auditors' Report

The Honorable Members of City Council  
City of Lodi, California:

We have audited the general purpose financial statements of the City of Lodi, California, as of and for the year ended June 30, 1990, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The City does not maintain complete historical cost records of its general and proprietary fund fixed assets and proprietary fund contributed capital. Accordingly, we were unable to satisfy ourselves with respect to fixed asset balances of \$15,842,572 and \$28,947,775 in the general fixed asset account group and the proprietary funds, respectively, depreciation expense of \$1,706,871 in the proprietary funds, and unrecorded contributed capital.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit adequate fixed assets records and proprietary contributed capital records as discussed in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Lodi, California, at June 30, 1990, and the results of its operations and the changes in financial position of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

(Continued)



**KPMG** Peat Marwick

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statements listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Lodi, California. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit adequate fixed assets records and proprietary contributed capital records as discussed in the second preceding paragraph, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

*KPMG Peat Marwick*

November 2, 1990

## CITY OF LODI

## Combined Balance Sheet - All Fund Types and Account Groups

June 30, 1990

	<u>Governmental Fund Types</u>				<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>	
<u>Assets</u>										
Cash and investments (note 3)	\$ 2,533,329	1,349,520	49,516	4,701,330	15,324,340	1,739,706	6,959,771	-	-	32,657,512
Restricted assets (note 3)	-	-	203,000	-	7,842,425	-	-	-	-	8,045,425
Receivables (net of allowances for uncollectibles):										
Accounts	331,189	29,388	-	272,956	2,289,864	43	258,648	-	-	3,182,088
Property taxes (note 4)	341,186	-	369	-	18,963	-	-	-	-	360,518
Special assessments	-	-	-	-	-	-	295,000	-	-	295,000
Interest	88,756	27,520	763	3,187	344,384	29,046	9,114	-	-	502,770
Due from other funds or governmental agencies (notes 5 and 7)	394,382	286,385	295,000	427,600	1,378,792	-	-	-	-	2,782,159
Inventory	93,978	-	-	-	1,574,154	-	-	-	-	1,668,132
Other assets	34,570	-	-	-	10,449	115,143	-	-	-	160,162
Fixed assets	-	-	-	-	28,947,775	-	-	15,842,572	-	44,790,347
Amount to be provided for retirement of general long-term debt obligations	-	-	-	-	-	-	-	-	4,632,695	4,632,695
Total assets	\$ 3,817,390	1,692,813	548,648	5,405,073	57,731,146	1,683,938	7,522,533	15,842,572	4,632,695	99,076,808

(Continued)

## CITY OF LODI

## Combined Balance Sheet - All Fund Types and Account Groups - Continued

June 30, 1990

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Total
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt	(Memorandum Only)
<u>Liabilities and Fund Equity</u>										
Liabilities:										
Accounts payable and other liabilities	\$ 401,308	198,539	-	74,708	2,536,469	17,144	813,475	-	-	4,041,643
Accrued salaries and wages	203,875	9,839	-	1,282	48,402	-	-	-	-	263,398
Accrued interest	-	-	-	-	360,529	-	-	-	-	360,529
Due to other funds (note 7)	-	68,500	-	612,800	1,125,092	-	295,000	-	-	2,101,392
Accrued compensated absences (note 6)	998,962	-	-	-	641,089	-	-	-	2,184,066	3,824,117
Deferred compensation payable (note 11)	-	-	-	-	-	-	6,413,887	-	-	6,413,887
Deferred revenue	392,467	-	295,000	-	-	-	-	-	-	687,467
Self-insurance reserve	-	-	-	-	-	1,747,318	-	-	-	1,747,318
Capitalized lease obligations (note 6)	-	-	-	-	-	-	-	-	371,207	371,207
Certificates of participation payable, net of discount (note 6)	-	-	-	-	8,834,348	-	-	-	-	8,834,348
Bonds payable, net of discount (note 6)	-	-	-	-	-	-	-	-	2,077,422	2,077,422
Total liabilities	<u>1,996,612</u>	<u>276,878</u>	<u>295,000</u>	<u>688,790</u>	<u>13,545,929</u>	<u>1,764,462</u>	<u>7,522,362</u>	<u>-</u>	<u>4,632,695</u>	<u>30,722,728</u>
Fund equity:										
Investment in general fixed assets	-	-	-	-	-	-	-	15,842,572	-	15,842,572
Retained earnings	-	-	-	-	44,185,217	119,477	-	-	-	44,304,694
Fund balance:										
Reserved for encumbrances	82,144	515,164	-	208,996	-	-	-	-	-	806,304
Unreserved - designated	495,563	900,771	253,648	4,507,288	-	-	170	-	-	6,157,440
Unreserved	<u>1,243,070</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,243,070</u>
Total fund equity	<u>1,820,777</u>	<u>1,415,935</u>	<u>253,648</u>	<u>4,716,284</u>	<u>44,185,217</u>	<u>119,477</u>	<u>170</u>	<u>15,842,572</u>	<u>-</u>	<u>68,354,080</u>
Contingent liabilities (note 11)										
Total liabilities and fund equity	\$ <u>3,817,389</u>	<u>1,692,813</u>	<u>548,648</u>	<u>5,405,074</u>	<u>57,731,146</u>	<u>1,883,939</u>	<u>7,522,532</u>	<u>15,842,572</u>	<u>4,632,695</u>	<u>99,076,308</u>

See accompanying notes to general purpose financial statements.

CITY OF LODI

Combined Statement of Revenues, Expenditures and Changes in Fund Balances  
All Governmental Fund Types and Expendable Trust Funds

Year Ended June 30, 1990

	Governmental Fund Types				Fiduciary Fund Type Expendable Trust	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects		
Revenues:						
Taxes	\$ 9,697,050	663,202	49,135	-	-	10,409,387
Licenses and permits	460,123	-	-	-	-	460,123
Intergovernmental revenues	2,051,550	1,467,715	82,780	382,032	-	3,984,077
Charges for services	3,927,276	39,313	-	-	-	3,966,589
Fines, forfeits and penalties	281,877	-	-	-	-	281,877
Interest and rental income	790,242	134,020	3,050	511,832	50,599	1,489,743
Miscellaneous revenue	543,212	57,184	4,603	94,286	235,357	934,642
Total revenue	17,751,330	2,361,434	139,568	988,150	285,956	21,526,438
Expenditures:						
Current:						
General government	2,430,281	1,408,324	-	-	-	3,838,605
Public protection	7,956,335	-	-	-	-	7,956,335
Public works	2,424,164	859,999	-	-	-	3,284,163
Sanitation	3,384,503	-	-	-	-	3,384,503
Library	788,167	-	-	-	-	788,167
Parks and recreation	2,156,136	108,682	-	-	-	2,264,818
Capital outlay	-	-	-	1,650,858	2,198,151	3,849,009
Debt service:						
Interest and fiscal charges	-	-	123,728	-	-	123,728
Principal payments	-	-	275,000	-	-	275,000
Total expenditures	19,139,586	2,377,005	398,728	1,650,858	2,198,151	25,764,328
Deficiency of revenues under expenditures	(1,388,256)	(15,571)	(259,160)	(662,708)	(1,912,195)	(4,237,890)
Other financing sources:						
Operating transfers in (note 8)	1,621,191	27,104	266,314	1,364,735	2,500	3,281,844
Operating transfers out (note 8)	131,845	-	-	-	-	131,845
Total other financing sources	1,489,346	27,104	266,314	1,364,735	2,500	3,149,999
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	101,090	11,533	7,154	702,027	(1,909,695)	(1,087,891)
Fund balance, as restated, June 30, 1989 (note 12)	1,719,687	1,404,402	246,494	4,014,257	1,909,865	9,294,705
Fund balance, June 30, 1990	\$ 1,820,777	1,415,935	253,648	4,716,284	170	8,206,814

See accompanying notes to general purpose financial statements.

**CITY OF LODI**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - General and Special Revenue Funds**

Year Ended June 30, 1990

	General Fund			Special Revenue Funds			Total (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>									
Taxes	\$ 9,502,430	9,697,050	194,620	649,710	663,202	13,492	10,152,140	10,360,252	208,112
Licenses and permits	407,835	460,123	52,288	-	-	-	407,835	460,123	52,288
Intergovernmental revenues	2,047,110	2,051,550	4,440	1,439,150	1,467,715	28,565	3,486,260	3,519,265	33,005
Charges for services	3,828,700	3,927,276	98,576	40,000	39,313	(687)	3,868,700	3,966,589	97,889
Fines, forfeits and penalties	306,000	281,877	(24,123)	-	-	-	306,000	281,877	(24,123)
Interest and rental income	698,755	790,242	91,487	83,480	134,020	50,540	782,235	924,262	142,027
Miscellaneous revenue	448,300	543,212	94,912	6,000	57,184	51,184	454,300	600,396	146,096
<b>Total revenue</b>	<b>17,239,130</b>	<b>17,751,330</b>	<b>512,200</b>	<b>2,218,340</b>	<b>2,361,434</b>	<b>143,094</b>	<b>19,457,470</b>	<b>20,112,764</b>	<b>655,294</b>
<b>Expenditures:</b>									
<b>Current:</b>									
General government	2,418,855	2,430,281	(11,426)	2,576,053	1,408,324	1,167,729	4,994,908	3,838,605	1,156,303
Public protection	7,589,255	7,956,335	(367,080)	-	-	-	7,589,255	7,956,335	(367,080)
Public works	2,464,531	2,424,164	40,367	2,561,121	859,999	1,701,122	5,025,652	3,284,163	1,741,489
Sanitation	3,342,110	3,384,503	(42,393)	-	-	-	3,342,110	3,384,503	(42,393)
Library	1,280,130	788,167	491,963	-	-	-	1,280,130	788,167	491,963
Parks and recreation	2,168,331	2,156,136	12,195	261,310	108,682	152,628	2,429,641	2,264,818	164,823
<b>Total expenditures</b>	<b>19,263,212</b>	<b>19,139,586</b>	<b>123,626</b>	<b>5,398,484</b>	<b>2,377,005</b>	<b>3,021,479</b>	<b>24,661,696</b>	<b>21,516,591</b>	<b>3,145,105</b>
Excess (deficiency) of revenues over (under) expenditures	(2,024,082)	(1,388,256)	635,826	(3,180,144)	(15,571)	3,164,573	(5,204,226)	(1,403,827)	3,800,399
<b>Other financing sources (uses):</b>									
Operating transfers in	1,769,859	1,621,191	(148,668)	21,436	27,104	5,668	1,791,295	1,648,295	(143,000)
Operating transfers out	145,000	131,845	13,155	-	-	-	145,000	131,845	(13,155)
<b>Total other financing sources (uses)</b>	<b>1,624,859</b>	<b>1,489,346</b>	<b>(135,513)</b>	<b>21,436</b>	<b>27,104</b>	<b>5,668</b>	<b>1,646,295</b>	<b>1,516,450</b>	<b>(129,845)</b>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(399,223)	101,090	500,313	(3,158,708)	11,533	3,170,241	(3,557,931)	112,623	3,670,554
Fund balances, June 30, 1989	1,719,687	1,719,687	-	1,404,402	1,404,402	-	3,124,089	3,124,089	-
Fund balances, June 30, 1990	\$ 1,320,464	1,820,777	500,313	(1,754,306)	1,415,935	3,170,241	(433,842)	3,236,712	3,670,554

See accompanying notes to general purpose financial statements.

CITY OF LODI

Combined Statement of Revenues, Expenses  
and Changes in Retained Earnings

All Proprietary Fund Types

Year Ended June 30, 1990

	<u>Proprietary Fund Types</u>		<u>Total</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>(Memorandum Only)</u>
Operating revenues:			
Charges for services	\$ <u>32,451,493</u>	<u>59,558</u>	<u>32,511,051</u>
Operating expenses:			
Personal services	3,085,491	311,003	3,396,494
Supplies, materials, and services	2,813,532	1,166,301	3,979,833
Utilities and communications	21,868,452	140	21,868,592
Depreciation	1,706,871	-	1,706,871
Benefit payments	<u>256,062</u>	<u>386,382</u>	<u>642,444</u>
Total operating expenses	<u>29,730,408</u>	<u>1,863,826</u>	<u>31,594,234</u>
Operating income (loss)	<u>2,721,085</u>	<u>(1,804,268)</u>	<u>916,817</u>
Nonoperating revenues (expenses):			
Sewer bond taxes	189,142	-	189,142
Interest revenue	2,364,571	138,847	2,503,418
Rent	202,635	-	202,635
Other	381,643	1,184,157	1,565,800
Interest expense	<u>(768,647)</u>	<u>-</u>	<u>(768,647)</u>
Total nonoperating revenues	<u>2,369,344</u>	<u>1,323,004</u>	<u>3,692,348</u>
Income (loss) before operating transfers	<u>5,090,429</u>	<u>(481,264)</u>	<u>4,609,165</u>
Operating transfers in (note 8)	-	292,095	292,095
Operating transfers out (note 8)	<u>(3,446,698)</u>	<u>-</u>	<u>(3,446,698)</u>
Total operating transfers	<u>(3,446,698)</u>	<u>292,095</u>	<u>(3,154,603)</u>
Net income (loss)	1,643,731	(189,169)	1,454,562
Retained earnings, June 30, 1989	<u>42,541,486</u>	<u>308,646</u>	<u>42,850,132</u>
Retained earnings, June 30, 1990	\$ <u>44,185,217</u>	<u>119,477</u>	<u>44,303,694</u>

See accompanying notes to general purpose financial statements.

CITY OF LODI

Combined Statement of Changes in Financial Position

All Proprietary Fund Types

Year Ended June 30, 1990

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Total (Memorandum Only)</u>
Sources of working capital:			
Operations:			
Net income (loss)	\$ 1,643,731	(189,169)	1,454,562
Items not requiring working capital - depreciation and amortization	<u>1,723,736</u>	<u>-</u>	<u>1,723,736</u>
Total sources of working capital	3,367,467	(189,169)	3,178,298
Uses of working capital:			
Acquisition of fixed assets, net	6,567,967	-	6,567,967
Decrease of long-term debt	<u>100,000</u>	<u>-</u>	<u>100,000</u>
Total uses of working capital	<u>6,667,967</u>	<u>-</u>	<u>6,667,967</u>
Net decrease in working capital	<u>\$(3,300,500)</u>	<u>(189,169)</u>	<u>(3,489,669)</u>

(Continued)



CITY OF LODI

Combined Statement of Changes in Financial Position - Continued

All Proprietary Fund Types

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Total (Memorandum Only)</u>
Elements of net decrease in working capital:			
Cash and investments	\$(1,551,547)	(54,591)	(1,606,138)
Restricted assets	(603,525)	-	(603,925)
Accounts receivable, net	247,716	43	247,759
Property taxes receivable	(28,816)	-	(28,816)
Interest receivable	86,574	10,422	96,996
Due from other funds or government agencies	345,459	-	345,459
Inventory	106,823	-	106,823
Other assets	(7,347)	115,143	107,796
Accounts payable and accrued liabilities	(1,694,521)	46,278	(1,648,243)
Accrued salaries and wages	(9,447)	-	(9,447)
Accrued compensated absences	(98,744)	-	(98,744)
Accrued interest	(4,987)	-	(4,987)
Due to other funds	(87,738)	-	(87,738)
Accrued self insurance claims	-	(306,464)	(306,464)
Net decrease in working capital	<u>\$(3,300,500)</u>	<u>(189,169)</u>	<u>(3,489,669)</u>

See accompanying notes to general purpose financial statements.

CITY OF LODI

Notes to General Purpose Financial Statements

June 30, 1990

(1) Summary of Significant Accounting Policies

The City of Lodi (City) was incorporated December 6, 1906, as a municipal corporation under the general laws of the State of California. The City operates under the Council-Manager form of government and provides the following services as authorized by its charter: general government, public works, public protection, sanitation, library, and parks and recreation.

The accounting policies of the City of Lodi conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

(a) Reporting Entity

The City's financial statements include the operations of all organizations for which the City Council exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Based on the aforementioned oversight criteria, the Lodi Public Improvement Corporation (LPIC) is included in the Enterprise Funds as the City has oversight responsibility for this entity.

(b) Basis of Presentation - Fund Accounting

The operations of the City are recorded in the following fund types and account groups:

Governmental Fund Types

Governmental Funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for

(Continued)

## CITY OF LODI

### Notes to General Purpose Financial Statements

through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the City's governmental fund types:

- General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, or major capital projects) that are legally restricted to expenditures for specified purposes.
- Debt Service Fund - Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.
- Capital Projects Fund - Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

#### Proprietary Fund Types

Proprietary Funds are used to account for the City's on-going organizations and activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income. The following are the City's proprietary fund types:

- Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent is that the costs (expenses, including depreciation) of providing goods or services are recorded primarily through user charges; or (b) where the governing body has decided that periodic determination of net income is appropriate.
- Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis.

(Continued)

## CITY OF LODI

### Notes to General Purpose Financial Statements

#### Fiduciary Fund Type

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds.

- Agency Funds - Agency funds are used principally to account for collection of special assessments and payment of related bond principal and interest. Agency funds are custodial in nature and do not involve measurement of results of operations.
- Expendable Trust Fund - Expendable Trust Fund is used principally to account for funds held by the governmental unit in a trustee capacity for individuals, private organizations, other governmental units, and/or other funds.

#### Account Groups

Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt. The following are the City's account groups:

- General Fixed Assets Account Group - This group of accounts is established to account for fixed assets of the City, other than those accounted for in the proprietary funds.
- General Long-Term Debt Account Group - This group of accounts is established to account for all long-term obligations of the City except those accounted for in the proprietary funds.

#### (c) Basis of Accounting

Governmental funds and Fiduciary fund types use the modified accrual basis of accounting. Under this basis of accounting, revenues are recorded when they become both measurable and available to pay liabilities of the current period. Revenues not considered available are recorded as deferred revenues. Expenditures are recorded when the liability is incurred, except for (1) interest on general long-term obligations which is recorded when due, and (2) the noncurrent portion of accrued vacation and sick leave, which is recorded in the general long-term debt account group.

(Continued)

## CITY OF LODI

### Notes to General Purpose Financial Statements

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year-end.

Licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenues (except investment earnings) are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

The accrual basis of accounting is used by the proprietary funds. Unbilled service revenue is accrued in proprietary funds.

#### (d) Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances are reported as reservations of fund balances since the commitments will be honored through subsequent years' budget appropriations. Encumbrances do not constitute expenditures or liabilities.

#### (e) Cash and Investments

Cash for most funds is pooled, and interest income from pooled investments is allocated to the various funds based on month-end balances. Available cash is invested in certificates of deposit, bankers acceptances, commercial paper, discount notes, repurchase agreements and savings accounts. Investments are stated at cost or amortized cost, which approximates market.

(Continued)

## CITY OF LODI

### Notes to General Purpose Financial Statements

#### (f) Inventory

Inventory is valued at the lower of cost (weighted-average method) or market. The cost of inventory is recorded as an expenditure/expense at the time individual inventory items are consumed (consumption method).

#### (g) General Fixed Assets

General Fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures in the governmental funds and capitalized at cost in the general fixed assets account group. Capital leases for buildings, improvements, and equipment are recorded in the general fixed assets account group, and the capital lease obligation payable is recorded in the general long-term debt account group. Contributed fixed assets are recorded in the general fixed assets account group at estimated fair market value at the time received.

Certain improvements such as roads, bridges, curbs and gutters, streets and sidewalks, drain systems, and lighting systems are not capitalized. Such assets normally are immovable and of value only to the City. Therefore, the purpose of stewardship for capital expenditures is satisfied without recording these assets.

No depreciation has been provided on general fixed assets, nor has interest been capitalized.

#### (h) Fixed Assets - Enterprise Fund

Fixed assets owned by the enterprise funds are stated at cost or estimated fair market value at the time received, if donated.

Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

	<u>Years</u>
Buildings	15 - 20
Improvements	3 - 5
Machinery and equipment	2 - 20
Utility plant	30

(Continued)

## **CITY OF LODI**

### **Notes to General Purpose Financial Statements**

#### **(i) Compensated Absences/Vacation and Sick Leave**

Noncurrent accumulated vacation and vested sick leave benefits for governmental funds are recorded in the General Long-Term Debt Account Group as a liability and also as an amount to be provided by future operations. The amount to be provided by future operations represents the total amount that would be required to be provided from the general operating revenues of the City if all the benefits were to be paid. The current portion, the amount expected to be paid in the next 12 months, is recorded as a liability of the responsible fund type.

Enterprise funds record compensated absences/vacation and sick leave as an expense and liability when earned.

#### **(j) Self-Insurance**

The City is self-insured for general liability, automobile liability, and workers' compensation. The operating funds are charged premiums by the City's self-insurance funds, which are accounted for as internal service funds. The accrued liability for estimated claims represents an estimate of the eventual loss on claims arising prior to year-end including claims incurred and not yet reported.

#### **(k) Total Columns**

The total columns labeled "memorandum only" data are the aggregate of the fund types and account groups and are presented only to facilitate financial analysis. No consolidating or other elimination entries were made in arriving at the totals, thus, they do not represent consolidated information.

### **(2) Budgetary Data**

The City Council follows these procedures in establishing the budgetary data reflected in the accompanying financial statements:

- On or prior to the first regular Council meeting in June of each year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. The budget is established on an accrual basis.

(Continued)

## CITY OF LODI

### Notes to General Purpose Financial Statements

- Public hearings are conducted during meetings of the City Council to obtain citizen comments.
- Prior to July 1, the budget is legally enacted through passage of an ordinance.
- The City Manager or designee is authorized to transfer certain budgeted amounts between accounts; however, any revisions that alter the total appropriations on functional expenditure classifications of any fund must be approved by the City Council. The combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General and Special Revenue Funds reflect all revisions.
- Appropriations lapse at the close of the fiscal year to the extent that they have not been expended or encumbered.

#### (3) Cash and Investments, and Restricted Assets

The City maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed on the combined balance sheet as "Cash and Investments."

The City is authorized to invest in securities of the State of California, U.S. Government, or its agencies; certificates of deposit (or time deposits) placed with commercial banks and/or savings and loan associations; negotiable certificates of deposit; banker's acceptances; commercial paper; local agency investment fund (State pool) demand deposits; repurchase agreements (collateralized by U.S. Treasury securities); pass book savings account demand deposits; and other investments that are, or may become, a legal investment as defined by the State of California Government Code (with prior approval of the Council).

Repurchase agreements entered into by the City are typically short-term in nature and structured to return a specified yield.

Generally accepted accounting principles define three categories of credit risk for securities:

- I Securities that are insured or registered, or for which the securities are held by the City or its agent in the City's name;
- II Securities that are uninsured and unregistered and are held by the broker's or dealer's trust department or agent in the City's name; and

(Continued)



# CITY OF LODI

## Notes to General Purpose Financial Statements

III Securities that are uninsured and unregistered and held by the broker or dealer, or by its trust department or agent, but not in the City's name.

The following is a recap of cash and investments, and restricted assets at June 30, 1990:

Cash and investments	\$ 32,657,512
Restricted assets	<u>8,045,425</u>
	<u>\$ 40,702,937</u>

The following is a detail summary of deposits and investments at June 30, 1990:

	<u>Cost</u>	<u>Approximate Market Value</u>	<u>Category</u>
<u>Unrestricted:</u>			
Cash and deposits	\$ 465,553	466,000	-
Investments:			
Certificates of deposit	6,600,000	6,600,000	III
Banker's acceptances	5,765,647	5,905,000	III
Government National Mortgage Association	1,853,396	1,789,000	I
U.S. Treasury Notes	997,703	1,010,000	I
Retirement funds held:			
Pooled investments	<u>6,413,887</u>	<u>6,414,000</u>	II
Total categorized unrestricted	22,096,186	22,184,000	
Local agency investment fund	10,000,000	10,000,000	
Mutual funds	504,241	504,000	
Various investments	<u>57,085</u>	<u>139,000</u>	I
Total unrestricted	<u>32,657,512</u>	<u>32,827,000</u>	

(Continued)

# CITY OF LODI

## Notes to General Purpose Financial Statements

	<u>Cost</u>	<u>Approximate Market Value</u>	<u>Category</u>
<u>Restricted:</u>			
Sewer funds:			
Various investments	\$ 7,842,425	7,842,425	-
Debt service:			
Various deposits and investments	<u>203,000</u>	<u>203,000</u>	-
Total restricted	<u>8,045,425</u>	<u>8,045,425</u>	
Total cash and investments, and restricted assets	\$ <u>40,702,937</u>		

### (4) Property Tax

San Joaquin County is responsible for assessing, collecting and distributing property taxes in accordance with enabling legislation. The City's property tax is levied each July 1 on the assessed value listed as of the prior March 1 for all real and personal property located in the City. The assessed value at March 1, 1989, upon which the 1990 levy was based, was \$2,050,535,592.

Taxes are due in two equal installments on November 1 and February 1 following the levy date, payments are delinquent after 40 and 60 days, respectively.

Property taxes levied for the year ended June 30, 1990, are recorded as receivables, net of estimated uncollectibles. The net receivables collected during the year and expected to be collected by August 30, 1990 are recognized as revenues in the year ended June 30, 1990. Net receivables estimated to be collectible subsequent to August 30, 1990 are reflected as deferred revenues.

(Continued)

CITY OF LODI

Notes to General Purpose Financial Statements

(5) Due from Other Governments

Due from other governments represents amounts due from the State of California and the federal government as follows:

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total</u>
State of California	\$ 2,035	218,377	220,412
Federal Government	-	68,008	68,008
Public Employee Retirement System	<u>392,347</u>	<u>-</u>	<u>392,347</u>
	<u>\$ 394,382</u>	<u>286,385</u>	<u>680,767</u>

State of California/Federal Government - These amounts represent expenditures made by the City for various grant programs but not reimbursed prior to June 30, 1990.

Public Employee Retirement System Surplus Account - In November 1987, the Public Employee Retirement System (PERS) changed the existing method of handling the surplus assets for employer categories in an overfunded position (better than 100% funded) with a new Surplus Asset Account method. This surplus was due largely to the fact that the actuarial assets have been adjusted to recognize unrealized capital gains and losses (Note 9).

Under the previous method, the surplus assets for overfunded employer categories were used to reduce the normal cost rate on a dollar-for-dollar basis or as an alternative, the surplus was used as an offset to the future employer normal cost on an amortized basis. Under the new method, if a miscellaneous or safety category within an employer is found to be in an overfunded position, the surplus will be transferred to a PERS Surplus Asset Account. PERS will then determine the employer rate for the overfunded category independent of the surplus using the same funding method as used for all employer categories not in an overfunded position. The employers in an overfunded position may then use the surplus assets to reduce their employer contributions to the System for the overfunded category in any manner they wish, and at any time, as long as a surplus remains in the Surplus Asset Account sufficient to cover the employer contribution shortage reported to the System.

(Continued)

CITY OF LODI

Notes to General Purpose Financial Statements

(6) Long-Term Debt and Capitalized Lease Obligations

The following is a summary of debt transactions of the City for the year ended June 30, 1990:

	<u>Interest Rates</u>	<u>July 1, 1989</u>	<u>Additions</u>	<u>Retire- ments</u>	<u>June 30, 1990</u>
<b>General long-term debt account group:</b>					
Compensated absences	-	\$ <u>1,995,310</u>	<u>188,756</u>	<u>-</u>	<u>2,184,066</u>
<b>General obligation bonds:</b>					
1965 Municipal improvement bonds:					
Series A	3.50%	1,830,000	-	235,000	1,595,000
Series B	4.50-5.25%	<u>235,000</u>	<u>-</u>	<u>40,000</u>	<u>195,000</u>
		2,065,000	-	275,000	1,790,000
<b>Special assessment district bonds with governmental commitment:</b>					
Lodi Unified Downtown (net of \$ 7,578 discount)					
	8.75-9.90%	<u>304,763</u>	<u>-</u>	<u>17,341</u>	<u>287,422</u>
		2,369,763	-	292,341	2,077,422
<b>Capitalized lease obligations:</b>					
IBM Corporation	7.42%	-	85,803	-	85,803
IBM Corporation	7.44%	-	141,563	-	141,563
FMC Corporation	7.50%	-	79,581	14,111	65,470
FMC Corporation	7.86%	45,766	-	17,893	27,873
Caterpillar	7.50%	<u>64,962</u>	<u>-</u>	<u>14,465</u>	<u>50,497</u>
		110,728	306,947	46,469	371,206
		\$ <u>4,475,801</u>	<u>495,703</u>	<u>338,810</u>	<u>4,632,694</u>
<b>Enterprise Funds:</b>					
<b>Certificates of participation (net of discount \$408,652)</b>					
	5.25-7.80%	\$ <u>8,917,483</u>	<u>-</u>	<u>88,135</u>	<u>8,834,348</u>

(Continued)

# CITY OF LODI

## Notes to General Purpose Financial Statements

Long-term debt payable at June 30, 1990 is comprised of the following individual issues:

- 1965 Municipal Improvement Bonds - Series A - These bonds were issued to finance the construction of sewer and drainage facilities plus a public safety building. The bonds are secured by a pledge of property tax revenues. Principal is payable annually through October 1, 1995, with interest.
- 1965 Municipal Improvement Bonds - Series B - These bonds were issued on May 1, 1969 to finance the construction and completion of storm drainage improvements for the City of Lodi. The bonds are secured by a pledge of property tax revenues. The semiannual principal payments, with interest of 4.50% to 5.25%, are payable on May 1 and November 1 through 1994.
- Special Assessment District Bonds with Governmental Commitment - The City is obligated under the terms of the Lodi United Downtown special assessment bond indentures, in the absence of any other bidder, to be the purchaser of property upon which any said special assessments are levied and are delinquent.
- Certificates of Participation - \$9,415,000 certificates of participation (1988 Wastewater Treatment Plant Expansion Project), annual principal payments August 1, beginning 1989, in amounts from \$100,000 to \$755,000 with final payment due August 1, 2003, interest increases from 5.25% to 7.80%, payable semiannually on February 1 and August 1.

The annual principal requirements to amortize all debt outstanding as of June 30, 1990 are as follows:

<u>Year Ending June 30,</u>	<u>General Obligation Bonds</u>	<u>Special Assessment Bonds</u>	<u>Certificates of Participation</u>	<u>Total</u>
1991	\$ 290,000	25,000	105,000	420,000
1992	295,000	25,000	110,000	430,000
1993	310,000	25,000	120,000	455,000
1994	325,000	30,000	125,000	480,000
1995	280,000	30,000	135,000	445,000
1996 and Thereafter	<u>290,000</u>	<u>160,000</u>	<u>8,720,000</u>	<u>9,170,000</u>
	\$ <u>1,720,000</u>	<u>295,000</u>	<u>9,315,000</u>	<u>11,400,000</u>

(Continued)

## CITY OF LODI

### Notes to General Purpose Financial Statements

The various indentures maintain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts. The City is in compliance with all such significant limitations and restrictions.

The present value of future minimum capital lease payments as of June 30, 1990 are as follows:

#### Fiscal Years

1991	\$ 126,219
1992	114,054
1993	88,039
1994	56,813
1995	<u>45,541</u>
Total minimum lease payments	430,666
Less amounts representing interest	<u>59,459</u>
Present value of minimum capital lease payments	\$ <u>371,207</u>

#### Industrial Development Bonds

The City of Lodi has lent its name to the City of Lodi Industrial Development Authority for the purpose of issuing the following industrial development bonds: Minton Corporation \$5,000,000 Industrial Development Bonds; and Dart Corporation \$8,000,000 Industrial Development Bonds.

These bonds are special obligation bonds only, payable solely out of the bond revenues or other sources of the above companies and are not a pledge of the general credit of the City of Lodi. The City of Lodi is not obligated for the redemption or administration of these industrial development bonds.

#### (7) Due From/To Other Funds

Individual fund interfund receivable and payable balances, excluding due from governmental agencies (see note 5) by fund type at June 30, 1990, are as follows:

(Continued)

# CITY OF LODI

## Notes to General Purpose Financial Statements

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Special Revenue Funds	\$ -	68,500
Debt Service Funds	295,000	-
Capital Projects Funds	427,600	612,800
Enterprise Funds	1,378,792	1,125,092
Trust and Agency Funds	-	295,000
	<u>\$ 2,101,392</u>	<u>2,101,392</u>

### (8) Operating Transfers

Total operating transfers by fund type at June 30, 1990, are as follows:

<u>Fund</u>	<u>Operating Transfer</u>	
	<u>In</u>	<u>Out</u>
General Fund	\$ 1,621,191	131,845
Special Revenue Funds	27,104	-
Debt Service Funds	266,314	-
Capital Projects Funds	1,364,735	-
Expendable Trust Fund	2,500	-
Agency Funds	4,604	-
Enterprise Funds	-	3,446,698
Internal Service Funds	292,095	-
	<u>\$ 3,578,543</u>	<u>3,578,543</u>

### (9) Defined Benefit Pension Plan

#### (a) Plan Description

The City contributes to the California Public Employees' Retirement System (PERS or System), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The City's payroll for employees covered by the System for the year ended June 30, 1990 was \$11,285,583 which was 84% of the City's total payroll of \$13,430,810.

The System covers essentially all employees, except elected officials and those employees compensated on an hourly basis who were hired after May 31, 1966.

(Continued)

CITY OF LODI

Notes to General Purpose Financial Statements

Safety employees are required to contribute nine percent of their annual salary to the System. All other employees are required to contribute seven percent. The City is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the Board of Administration.

(b) Funding Status and Progress

The amount shown below as the pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the System on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the System.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1989. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8.5 percent a year compounded annually, (b) projected salary increases of 5 percent a year compounded annually, attributable to inflation, (c) additional projected salary increases of 2 percent a year, attributable to seniority/merit, and (d) no postretirement benefit increases.

Total unfunded pension benefit obligation applicable to the City's employees was \$3,402,834 at June 30, 1990, as follows:

Pension benefit obligation:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 21,738,274
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Current employees:

Accumulated employee contributions including allocated investment earnings	9,057,485
Employer-financed vested	9,230,876
Employer-financed nonvested	<u>625,138</u>

Total pension benefit obligation	40,651,773
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Net assets available for benefits, at cost (market value approximates \$43,655,757)	<u>37,248,939</u>
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Unfunded pension benefit obligation	\$ <u>3,402,834</u>
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(Continued)



## CITY OF LODI

### Notes to General Purpose Financial Statements

#### (c) Actuarially Determined Contribution Requirements and Contribution Made

PERS uses the Entry Age Normal Actuarial Cost Method which is a projected benefit cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued.

According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from date of employment until retirement. PERS uses a modification of the Entry Age Cost Method in which the employer's total normal cost is expressed as a level percentage of payroll. PERS also uses the level percentage of payroll method to amortize any unfunded actuarial liabilities. The amortization period of the unfunded actuarial liability ends on June 30, 2000.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation, as previously described.

The contribution to the System for 1990 of \$2,182,495 was made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 1989. The contributions consisted of: (a) \$1,896,515 normal cost (16.8 percent of current covered payroll) and (b) \$285,979 amortization of the unfunded actuarial accrued payroll liability (2.5 percent of current covered payroll). The City contributed \$1,302,836 of this total (11.5 percent of current covered payroll) and the employees contributed \$879,658 (7.8 percent of current covered payroll).

#### (d) Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. System wide ten-year trend information may be found in the California Public Employees Retirement System Annual Reports.

For the year ended June 30, 1990 available assets were sufficient to fund 91.6 percent of the pension benefit obligation. Unfunded pension benefit obligation represented 30.4 percent of the annual payroll for employees covered by the PERS for 1990. Showing unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation for analysis purposes. In addition, for the year ended 1990, the City's contributions to the System, all made in accordance with actuarially determined requirements, was 12 percent of annual covered payroll.

(Continued)

# CITY OF LODI

## Notes to General Purpose Financial Statements

### (10) Segments of Enterprise Activities

There are three services provided by the City which are financed by user charges - electric, sewer, and water. Selected financial data for those three services for the year ended June 30, 1990 are as follows:

	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Operating revenues	\$ 27,126,748	2,825,374	2,499,371	32,451,493
Operating expenses:				
Depreciation	730,042	707,932	268,897	1,706,871
Other	<u>25,318,241</u>	<u>1,545,376</u>	<u>1,159,920</u>	<u>28,023,537</u>
Operating income	1,078,465	572,066	1,070,554	2,721,085
Nonoperating revenue	2,526,584	1,236,711	1,327,134	5,090,429
Operating transfers out	<u>(2,736,730)</u>	<u>(198,688)</u>	<u>(511,280)</u>	<u>(3,466,698)</u>
Net income (loss)	\$ <u>(210,146)</u>	<u>1,038,023</u>	<u>815,854</u>	<u>1,643,731</u>
Additions to fixed assets	\$ <u>3,587,401</u>	<u>2,358,602</u>	<u>621,964</u>	<u>6,567,967</u>
Net working capital	\$ <u>26,258,395</u>	<u>12,489,571</u>	<u>5,437,251</u>	<u>44,185,217</u>
Total assets	\$ <u>28,431,352</u>	<u>22,628,361</u>	<u>6,671,433</u>	<u>57,731,146</u>
Certificates of participation	\$ <u>-</u>	<u>8,834,348</u>	<u>-</u>	<u>8,834,348</u>
Total equity	\$ <u>26,258,395</u>	<u>12,489,571</u>	<u>5,437,251</u>	<u>44,185,217</u>

### (11) Contingent Liabilities

**Deferred Compensation Plan** - The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the Plan, all property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City subject only to the claims of the City's general creditors. Participants' rights under the Plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

(Continued)

## CITY OF LODI

### Notes to General Purpose Financial Statements

Self-Insurance - The City is self-insured under its existing general liability insurance policy for the first \$250,000 of claims, per occurrence, with the California joint powers insurance agency providing certain liability coverage for the next \$750,000, per occurrence and in the aggregate. Additional coverage is available for claims in excess of \$1,000,000 to \$10,000,000 per occurrence and in the aggregate.

The City is self-insured with respect to workers' compensation, medical benefits, unemployment, and long-term disability for its employees. Self-insured transactions are accounted for in the Internal Service Fund. The first plan is administered by an outside agency, the latter three are administered by the City. Claims payable under the above policies aggregated \$1,747,318 at June 30, 1990. Incurred but not reported claims have been considered in determining the accrual for the self-insurance reserve.

The City does not use an actuary to determine liability. Claims payable are determined from administrators reports and the City's historical data.

Expansion of Sewage Treatment Plant - The City issued certificates of participation to pay for the expansion of the capacity of its sewage treatment plant. The City is committed to pay any sewage treatment plant expansion costs in excess of the cash provided from the issuance of the certificates of participation. At June 30, 1990, budgeted costs exceeded cash available from the issuance of the certificates of participation by approximately \$1,541,000.

Litigation - The City of Lodi, California is a defendant in various lawsuits. The City Attorney estimates that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial condition of the City.

#### Arbitrage Earnings Rebate Liability

Arbitrage earnings are defined as income earned on the unexpended tax exempt bond proceeds in excess of that which would have been earned had the monies been invested in securities with a yield of the effective rate of the bond anticipation notes. Arbitrage earnings must be rebated to the United States Treasury every five years. The Authority recorded an arbitrage earnings rebate liability of approximately \$97,000 as of June 30, 1990. Future arbitrage earnings (losses) can be used to offset the existing rebate liability. Therefore, a potential exists for the figure to either increase or decrease prior to the due date of August 1, 1993.

(Continued)

**CITY OF LODI**

**Notes to General Purpose Financial Statements**

**(12) Restatement of Beginning (June 30, 1989) Fund Balance**

In the prior year, the City recorded \$100,000 received from the Old Lodi Unified High School Site Foundation as revenue. This receipt should have been applied to the outstanding receivable balance. The effect of this restatement was a \$100,000 decrease to the fund balance of the Capital Projects Fund.

CITY OF LODI  
Enterprise Funds  
Combining Balance Sheet

June 30, 1990

	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<u>Assets</u>				
Cash and investments	\$ 9,200,994	4,518,291	1,605,055	15,324,340
Restricted assets	-	7,842,425	-	7,842,425
Receivables (net of allowance for uncollectibles):				
Accounts	1,963,323	158,014	168,527	2,289,864
Property taxes	-	18,963	-	18,963
Interest	189,094	126,244	29,046	344,384
Due from other funds or governmental agencies	1,378,792	-	-	1,378,792
Inventory	1,316,937	11,489	245,728	1,574,154
Other assets	243	10,152	54	10,449
Fixed assets (net of accumulated depreciation)	<u>14,381,969</u>	<u>9,942,783</u>	<u>4,623,023</u>	<u>28,947,775</u>
Total assets	\$ <u>28,431,352</u>	<u>22,628,361</u>	<u>6,671,433</u>	<u>57,731,146</u>
<u>Liabilities</u>				
Accounts payable and other liabilities	\$ 1,754,439	745,990	36,040	2,536,469
Accrued salaries and wages	28,485	10,728	9,189	48,402
Accrued interest	-	360,529	-	360,529
Due to other funds	-	-	1,125,092	1,125,092
Accrued compensated absences	390,033	187,195	63,861	641,089
Certificates of participation payable, net of discount	-	<u>8,834,348</u>	-	<u>8,834,348</u>
Total liabilities	2,172,957	10,138,790	1,234,182	13,545,929
<u>Fund Equity</u>				
Retained earnings	26,258,395	12,489,571	5,437,251	44,185,217
Contingent liabilities				
Total liabilities and fund equity	\$ <u>28,431,352</u>	<u>22,628,361</u>	<u>6,671,433</u>	<u>57,731,146</u>

See accompanying independent auditors' report.

CITY OF LODI

Enterprise Funds  
Combining Statement of Revenues, Expenses  
and Changes in Retained Earnings

Year Ended June 30, 1990

	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Operating revenues:				
Charges for services	\$ <u>27,126,748</u>	<u>2,825,374</u>	<u>2,499,371</u>	<u>32,451,493</u>
Operating expenses:				
Personal services	1,877,328	754,458	453,705	3,085,491
Supplies, materials and services	1,985,300	506,087	322,145	2,813,532
Utilities and communications	21,204,456	280,431	383,565	21,868,452
Depreciation	730,042	707,932	268,897	1,706,871
Benefit payments	<u>251,157</u>	<u>4,400</u>	<u>505</u>	<u>256,062</u>
Total operating expenses	<u>26,048,283</u>	<u>2,253,308</u>	<u>1,428,817</u>	<u>29,730,408</u>
Operating income	<u>1,078,465</u>	<u>572,066</u>	<u>1,070,554</u>	<u>2,721,085</u>
Nonoperating revenues (expenses):				
Sewer bond taxes	-	189,142	-	189,142
Interest revenue	1,153,161	1,073,467	137,944	2,364,572
Rent	20,356	130,761	51,517	202,634
Interest expense	-	(768,647)	-	(768,647)
Other	<u>274,602</u>	<u>39,922</u>	<u>67,119</u>	<u>381,643</u>
Total nonoperating revenues (expenses)	<u>1,448,119</u>	<u>664,645</u>	<u>256,580</u>	<u>2,369,344</u>
Income before operating transfers	2,526,584	1,236,711	1,327,134	5,090,429
Operating transfers out	<u>(2,736,730)</u>	<u>(198,688)</u>	<u>(511,280)</u>	<u>(3,446,698)</u>
Net income (loss)	(210,146)	1,038,023	815,854	1,643,731
Retained earnings, June 30, 1989	<u>26,468,541</u>	<u>11,451,548</u>	<u>4,621,397</u>	<u>42,541,486</u>
Retained earnings, June 30, 1990	\$ <u>26,258,395</u>	<u>12,489,571</u>	<u>5,437,251</u>	<u>44,185,217</u>

See accompanying independent auditors' report.

CITY OF LODI

Enterprise Funds  
Combining Statement of Changes in Financial Position

Year Ended June 30, 1990

	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Sources of working capital:				
Operations:				
Net income (loss)	\$ (210,146)	1,038,023	815,854	1,643,731
Items not requiring working capital:				
Depreciation and amortization	<u>730,042</u>	<u>724,797</u>	<u>268,897</u>	<u>1,723,736</u>
Total sources of working capital	519,896	1,762,820	1,084,751	3,178,298
Uses of working capital:				
Acquisition of fixed assets, net	3,587,401	2,358,602	621,964	6,567,967
Decrease of long-term debt	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>100,000</u>
Total uses of working capital	<u>3,587,401</u>	<u>2,458,602</u>	<u>621,964</u>	<u>6,667,967</u>
Net increase (decrease) in working capital	<u>\$(3,067,505)</u>	<u>(695,782)</u>	<u>462,787</u>	<u>(3,300,500)</u>
Elements of net increase (decrease) in working capital:				
Cash and investments	\$(2,642,047)	703,701	386,799	(1,551,547)
Restricted assets	-	(603,925)	-	(603,925)
Accounts receivable, net	252,278	(11,074)	6,512	247,716
Property taxes receivable	-	(28,816)	-	(28,816)
Interest receivable	52,295	20,213	14,066	86,574
Due from other funds or governmental agencies	345,459	-	-	345,459
Inventory	68,852	3,995	33,976	106,823
Other assets	(402)	(6,998)	53	(7,347)
Accounts payable and accrued liabilities	(1,011,192)	(730,503)	47,174	(1,694,521)
Accrued salaries and wages	(6,340)	(2,322)	(785)	(9,447)
Accrued compensated absences	(126,408)	(39,087)	66,751	(98,744)
Accrued interest	-	(4,987)	-	(4,987)
Due to other funds	<u>-</u>	<u>4,021</u>	<u>(91,759)</u>	<u>(87,738)</u>
Net increase (decrease) in working capital	<u>\$(3,067,505)</u>	<u>(695,782)</u>	<u>462,787</u>	<u>(3,300,500)</u>

See accompanying independent auditors' report.